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Chain Store Age EXECUTIVE

with Shopping Center Age

The newsmagazine for retail management

November 1987

SHOULDERS: ADDING TO RETAIL SQUARE FOOTAGE

Women topple shopping center barriers

olly South, general partner, oor & South nd an ICSC Trustee

ICSC DEAL-MAKING ISSUE

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FROM THE EDITOR'S DESK

WATCHING THE DRAMA UNFOLD

While attending the recent National Retail Merchants Association's Retail Information Systems Conference, I had a chance to visit with Jack Brill of IBM. We discussed changes taking place in retailing—what Brill described as "a quiet drama." I like that description.

Aside from a few major news stories such as the Haft family's ongoing (at least as of presstime) attempts to take over Dayton Hudson, much of what is happening isn't headline-grabbing. But taken collectively, these occurrences have the power and the potential to greatly impact the retail industry of the future.

For example, there are remarkable computer-aided design systems now on the market. These enable the buyer and apparel manufacturer, located thousands of miles from one another, to work in tandem on designing the next apparel items to be shipped to the stores. From the retailers' point of view, the use of such systems may eventually enable stores to respond with far greater speed to the moment's fashion and fads.

At the same time, and again utilizing computer power, there are systems available that allow retailers to know more than ever before about the attitudes and lifestyles of their customers. For example, the market research firm Prizm has devised a methodology for dividing any market into as many as 32 sub-sectors, each identified by a catchy name. And each also characterized by exact information on the people found in each.

It's not just technology, though, that's playing a role in this drama. It's also the younger and younger executives who are moving into the top spots at many U.S. retail companies. They aren't as hemmed in by tradition as were many of their predecessors. Greater innovation and creativity, not only in the executive suite, but throughout their organizations should be one of the results.

Many of these large retailing conglomerates are moving into new areas: Sears, Roebuck, J. C. Penney and R. H. Macy all recently embarked on their individual forays into specialty retailing. Other companies, such as The Gap (with Hemisphere) are launching new ventures they believe have great growth potential.

Then there are the major advances taking place in food packaging, innovations being made in customer service, and a whole host of experiments taking place with electronic forms of shopping in the home and on the selling floor. The list could go on and on.

A quiet drama? Yes. But a suspenseful one as well.

—**Jacquelyn Bivins**

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SHOPPING CENTER INDUSTRY LOOKS TO MAKE NEW DEALS

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BIG BUILDERS 1987

TOP 25 RETAILERS SPEND $7.4 BILLION TO GAIN GROUND IN MARKET SHARE WAR

The construction of new stores and the expansion and/or remodeling of older ones are important weapons in the battle retailers are waging to up market share.

That's why, taken collectively, before year-end the nation's top 25 retail builders (as ranked by *Chain Store Age Executive* research) are planning to increase their gross square footage by a total of approximately 666,063,980 sq. ft.

Such construction is expected to account for the lion's share of the capital expenditures budgets of this group which, expected to total approximately $7.4 billion. However, also included in this figure are the hefty investments many companies are making in more sophisticated management information systems and in modernization and/or expansion of their distribution facilities. These, too, they view as powerful competitive weapons.

Take, for example, the plans of Wal-Mart which is out in front as the industry's largest Big Builder with a projected 11.7 million sq. ft. of space to be added before year-end. This means that Wal-Mart will be significantly increasing the already substantial market strength of its Wal-Mart discount stores. It will also be further expanding the presence of Sam's Wholesale Clubs.

In addition, Wal-Mart is about to debut the first two Wal-Mart Super Centers in a joint venture with Dallas-based Cullum Cos. Each of these will be approximately 225,000 sq. ft. in size.

These combination food and general merchandise stores are Wal-Mart's (and Cullum's) American adaptations of the popular European hypermarkets (Troy, Mich.-based K mart and Birmingham, Ala.-based Bruno's have also announced plans for a similar joint venture). Independently of Cullum, Wal-Mart also has announced plans to open two additional Super Centers scaled down slightly to 150,000 sq. ft. each.

However, in addition to the Super Centers, other details of Wal-Mart's 1987 construction plans (for its fiscal year ending Jan. 31, 1988) include the following:

- a total of 125 new Wal-Mart stores
- 20 new Sam's Wholesale Clubs
- six dot's (Wal-Mart's entry into deep discount drug store retailing)
- the expansion or relocation of 55 older Wal-Mart stores.

According to company officials, this will mark the fifth consecutive year that the company has increased its retail space by more than 20%.

This is also being accomplished by the company at a relatively low cost. Wal-Mart's 1987 capital expenditures are forecast to be approximately $403.7 million. This, in turn, means that the company holds the No. 5 spot in the Top 25 Big Builders rankings based on 1987 capital expenditures. This also means that the company's cost per square foot are approximately $34.50 (admittedly not adjusted for the fact that some of Wal-Mart's construction activity involves remodeling, not new construction).

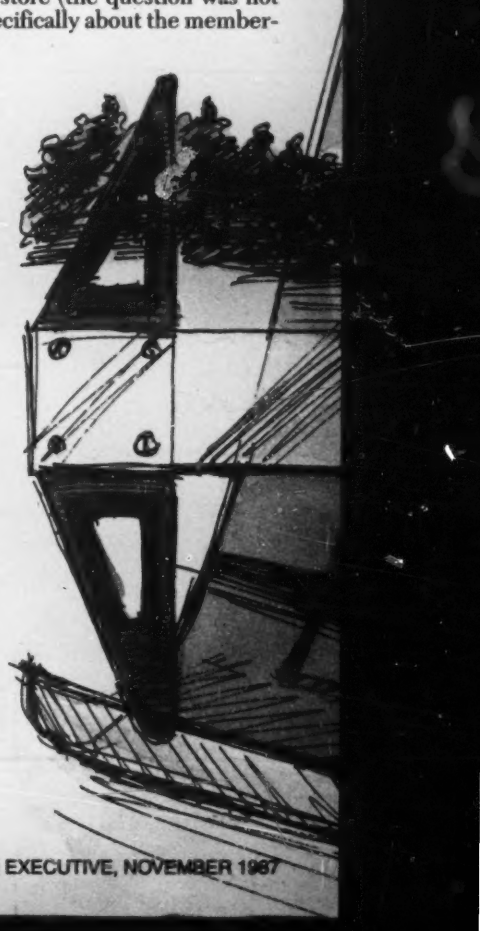
In comparison, St. Louis-based May Department Stores, tied with Troy, Mich.-based K mart for the No. 2 spot in the capital expenditures roster with a budget of approximately $600 million, is adding an estimated 2.99 million sq. ft. of space this year. (Dayton Hudson is No. 1 in capital expenditures budgets with an estimated $800 million.) Consequently, the obviously higher cost per square foot for new construction reflects in part the far greater expenses involved in opening department stores and specialty stores.

Chain Store Age Executive research indicates that the average cost per square foot for constructing a department store last year was $40.50 and $28.10 for an apparel specialty store. This compares with $27.20 for a discount store (the question was not asked specifically about the member-

Capital expenditures

	1987 (000)	1986 (000)
1. Dayton Hudson	$800,000	$1,088,000[1]
2. May Department Stores	600,000[2]	472,000
3. K mart	600,000	552,000
4. Federated Dept. Stores	500,000	515,000
5. Kroger	460,000	475,000
6. Wal-Mart	404,000	351,000
7. American Stores	400,000	196,000
8. Sears, Roebuck	365,000	380,000
9. J. C. Penney	350,000	348,000
10. Albertsons	260,000	139,000
11. Dillard's	255,000	182,000
12. F. W. Woolworth	250,000	202,000
13. The Limited	245,000	197,000
14. Supermarkets General	220,000	159,000
15. Publix	210,000[3]	166,000
16. Zayre	200,000	185,000
17. Toys "R" Us	200,000	200,000
18. U.S. Shoe	165,000	148,000
19. Winn-Dixie	161,000	179,000
20. A&P	150,000	115,000
21. Stop & Shop	150,000	136,000
22. Walgreens	130,000	155,000
23. Melville	121,000	116,000
24. Lucky Stores	100,000	273,000
25. Pace	100,000	110,000

[1]Includes $148 million in new operating leases
[2]Includes $100 million capital value of new operating leases
[3]Estimate
Source: Company reports, estimates and *Chain Store Age Executive* research



ship warehouse format).

May Department Stores itself reported in its latest annual report (for the fiscal year ended Jan. 31, 1987) that last year it spent $338 million in capital expenditures for its department stores (including a number of remodelings). It spent $64 million on its two specialty store divisions (Volume Shoe and Loehmann's) and $69 million on its discount stores (Venture and Caldor). An additional $29 million was spent for corporate purposes and $4 million for real estate, bringing last year's budget to a total of $503 million.

This year the corporation's plans call for 11 department stores, eight discount stores and approximately 240 specialty stores. In addition, May is investing in the remodeling and/or expansion of more than 40 of its stores (but has not specified which ones).

A company that appears to be devoting an even greater percentage of its capital expenditures to remodeling is Cincinnati-based Federated Department Stores. Although it ranks fourth in terms of capital expenditures with a budget of approximately $500 million, its money is being spent to add only an estimated 570,000 sq. ft. of space (keeping Federated off last year's list of Big Builders ranked by gross square footage).

Instead, according to the company's annual report, this money is being invested in remodeling and remerchandising its various divisions, especially its department stores. Steps are also being taken to remodel and reconfigure the space in all 76 of Federated's Gold Circle units over the next few years.

Specifically, since its decision to consolidate the Richway and Gold Circle operations, Federated is making sure that its message of everyday low pricing gets through to Gold Circle's customers; it is also trying to convey the message that there are now more fashion goods included in the chain's apparel and home goods merchandise offerings.

Federated's Ralphs supermarket operations are also the recipient of some of its capital investment dollars; in 1986 Federated invested substantial dollars in opening a number of new Ralphs stores.

This year, though, Federated's new store growth is coming in what it terms its "growth vehicles." These are its Children's Place division (and its offshoot Accessory Place which will be opening a number of new stores before year-end) and MainStreet, with five new stores on tap for this year.

It's Dayton Hudson, though, that even better exemplifies how a company can make use of capital expenditures dollars to rapidly expand what it views as its major growth vehicles. Not only is the Minneapolis-based company the industry's biggest 1987 spender with its $800 million budget, but it is adding over 9.5 million sq. ft. of space (putting it at the No. 2 spot in terms of gross square footage). All of the company's new store openings this year will reflect the company's willingness to invest in what it views as high-growth opportunities.

Specifically, much of the current year's budget is being spent for the following: the opening of 50 Target stores as a result of real estate sites the company acquired last year from Gemco (including the remodeling of some of these units into the Target format); the opening of an additional 24 Target units; the opening of 24 Mervyn's, including the chain's first stores in Michigan; and six new Lechmere stores.

Other changes in these businesses include, at Target, the extension of its private label merchandise program to include hardline products such as stationery and home furnishings. The stores will also feature more merchandise geared at the children's market. In addition, a hefty investment is being made in installing scanning systems at more than 90 Target stores, joining the 20 units which already had this system in place.

At Mervyn's, Dayton Hudson's strategic moves include greater focus on quality control for its private label merchandise, a move to narrower merchandise assortments, a new television advertising campaign and the development of a new store prototype with improvements in merchandise layouts, aisle patterns and department adjacencies and size. Mervyn's is also testing a magnetic stripe-reading system that automatically reads the information on credit cards, and is beginning to test the implementation of scanning systems for its stores.

However, Dayton Hudson isn't ignoring its department store business, Dayton Hudson Department Stores, either. Major remodeling programs for 10 Hudson's stores and three Dayton's stores have also been undertaken this year. And, the department store management team is continuing to work hard to improve all aspects of customer service.

What all these companies illustrate is that when it comes to planning additions to selling space and setting those capital expenditures budgets, every single dollar is important in fighting to stay always one step ahead of the competition. ■

Gross square footage added

	1987	1986
1. Wal-Mart	11,700,000	11,926,000
2. Dayton Hudson	9,534,400	4,590,000
3. K mart	7,819,000	8,944,000
4. Zayre	4,650,000*	3,499,000*
5. J.C. Penney	3,448,500	2,884,750
6. Kroger	3,250,000*	(697,000)
7. May Department Stores	2,985,000	1,686,000
8. Toys "R" Us	2,175,000*	1,575,000
9. Melville	2,057,500*	1,979,000*
10. Winn-Dixie	1,700,000*	3,300,000
11. Hechinger	1,400,000	848,000
12. Albertsons	1,378,080	1,000,000
13. Ames	1,377,000*	887,000*
14. U.S. Shoe	1,362,000	914,700
15. F. W. Woolworth	1,306,000	(23,000)
16. Publix	1,200,000*	N/A
17. Hills	1,200,000*	880,000*
18. Stop & Shop	1,155,000	880,000
19. The Limited	1,125,000	N/A
20. Walgreens	930,000	948,600
21. American Stores	985,000*	1,600,000
22. Pace	900,000	900,000
23. Supermarkets General	846,500	555,000
24. Circuit City	805,000	595,000
25. Home Depot	775,000	336,000

*estimate ( ) loss

Source: Company reports and *Chain Store Age Executive* research